

Message Text

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ACTION TRSE-00

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FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3759

C O N F I D E N T I A L ABU DHABI 0057

TREASURY FOR PARSKY

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: FOLLOW-UP TO PARSKY'S VISIT TO ABU DHABI

REF: STATE 000022

1. REGRET WE NEGLECTED TO SEND YOU SUMMARY OF GAS PROJECT AS PROMISED WHEN YOU WERE HERE. AS FAR AS IMPASSE IN NEGOTIATIONS IS CONCERNED,

HOWEVER, STORY IS PRETTY SIMPLE. PROJECT ITSELF IS TO TAKE ALL OF NGL AND LPG OUT OF ABU DHABI'S ON-SHORE ASSOCIATED GAS. ETHANES AND METHANES WOULD NOT BE PROCESSED UNDER THIS FIRST STAGE PROJECT. UNUSED GAS WOULD BE RECYCLED INTO LARGE GAS RESEVOIR WHICH LIES BELOW OIL-PRODUCING FHRATA. COST OF PROJECT ESTIMATED AT 1200 MILLION DOLLARS. THERE ARE NO SERIOUS DIFFERENCES BETWEEN COMPANIES AND GKEHJNMENT ON SCOPE OF PROJVTT WHICH WAS IN FACT DESIGNED BY ADPC SEVERAL YEARS AGO.

2. ALTHOUGH THERE ARE SOME UNRESOLVED PROBLEMS OTHER THAN THOSE OF FINANCING, SUCH AS TERMS ON WHICH VENTURE WOULD BE PROVIDED GAS BY GOVERNMENT AND GUARANTEE OF CERTAIN LEVEL OF PROFITABILITY FOR INDUSTRY PARTNERS, BOTH SIDES SEEM TO FEEL THESE PROBLEMS WOULD BE FAIRLY READILY OVERCOME IF IMPASSE COULD BE BROKEN ON FINANCING. NUB OF LATTER IS THAT GOVERNMENT

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IS INSISTING COMPANIES BRING INTO VENTURE NOT ONLY 20 PERCENT CASH

(COMPANIES ARE PREPARED TO DO THIS) BUT REMAINING 80 PERCENT FINANCED PORTION OF THEIR \$500 MILLION SHARE OF EQUITY (40 PERCENT OF TOTAL COST OF PROJECT). COMPANIES CANNOT BORROW THIS MONEY WITHOUT THEMSELVES GUARANTEEING REPAYMENT, AND THEY DO NOT WANT TO TIE UP THIS MUCH CAPITAL FOR THIS PROJECT. THEY PROPOSED AS ALTERNATIVE THAT ADNOC AND INDUSTRY PARTNERS EACH KICK IN THEIR CASH SHARES FOLLOWING WHICH JOINT VENTURE WOULD BE FORMED UP AND FINANCED CAPITAL RAISED IN JOINT VENTURE'S NAME. BUT UNDER THIS FORMULA GOVERNMENT SEES ITSELF (PROBABLY ACCURATELY) ENDING UP HAVING TO GUARANTEE ENTIRE DEBT CAPITAL. THEY BELIEVE THIS MAKES MOCKERY OF 60/40 PARTNERSHIP.

3. ABU DHABI 00001 WILL BRING YOU UP TO DATE ON LATEST ROUND OF TALKS. CFP AND BP DROPPING OUT POSSIBLY SIMPLIFIES MATTERS IN THAT NEGOTIATIONS ARE NO LONGER SADDLED WITH LEAST ENTHUSIASTIC INDUSTRY PARTNERS. THIS LEAVES TWO AMERICAN FIRMS WITH MORE IMPORTANT ROLE. ON OTHER HAND, REMAINING MEMBERS DO NOT SEEM TO HAVE COME UP WITH MUCH OF IMPROVEMENT IN THEIR POSITION ON FINANCING IN LATEST TALKS.

4. WE DO NOT SEE THAT THERE IS MUCH THE USG CAN DO TO HELP BRIDGE GAP ON FINANCING AT THIS STAGE. COMPANIES MUST OBVIOUSLY MAKE UP THEIR OWN MINDS WHETHER THEY THINK INVESTING IN ABU DHABI GAS IN SENSIBLE USE OF THEIR CAPITAL. IT WOULD, HOWEVER, BE HELPFUL IF MOBIL AND EXXON MANagements COULD BE CONTACTED TO GET READING ON CURRENT ATTITUDE OF THESE FIRMS TOWARD PROJECT. STERNER

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